

NEIGHBORHOOD LAND BANK

Purpose:

Contribute to the community stabilization, revitalization and preservation of San Diego County's communities, particularly San Diego's low and moderate income communities, through the acquisition, rehabilitation and disposition of real property for use as workforce and affordable housing.

Background:

Housing is one of the major contributors to the US economy. Healthy housing markets are characterized by regional job growth, price increases that track rates of inflation, and strong demand for homeownership at the entry level. In the past ten years, a large part of US economic growth has been driven by consumer confidence, caused in large part, by a liquid housing market. This liquidity combined with poorly designed and underwritten loan products has contributed to a severe housing downturn that has broadly impacted all markets and economies from local to global. This national crisis threatens the stability of financial institutions, communities, and citizens.

At a national level, the Treasury Department, the Federal Reserve, and Congress have proposed and continue to work on broad solutions. These solutions include the passage of the Neighborhood Stabilization Act, and more recently, the take over of Freddie Mac and Fannie Mae.

However, housing is a regional business that requires local knowledge and expertise. Accordingly, there is a need for the development of local initiatives to advance workable solutions for regional economies, communities, and citizens.

One measure of the economic health of a region is its level of foreclosures. High levels of foreclosure are a burden on the entire region. Foreclosures burden employers with lower levels of employee productivity; communities with lower taxes and increased costs to manage neighborhood blight; lenders and investors with higher loan losses, loan management costs and reduced new lending opportunities; and the homeowner with loss of equity, dysfunctional neighborhoods, family dislocations, and potentially poor credit ratings. The increasing foreclosure inventory is a major impediment to new capital investment in our communities which in turn has brought the production of new housing units to a standstill. Today, virtually all of San Diego's communities and its residents are experiencing these negative effects of high levels of foreclosure.

Housing contractions most severely impact low and moderate income communities since the household balance sheets of its citizens do not have the flexibility to manage untoward financial events. Accordingly, SD's L/M communities are most adversely affected by this crisis.

The SDRTF/SDCC supports a comprehensive plan for the San Diego region which includes, in addition to the creation of a regional Neighborhood Land Bank, homeowner foreclosure prevention, home buyer education and financing initiatives, lender forbearance and regulatory reform.

This housing crisis creates a need for a local land bank, which will help combat the negative effects of the current crisis and to help manage the affordability issue. The following is the plan for the establishment of a community based non profit land bank to help with the current crisis and create a foundation for housing affordability and neighborhood stability.

The Current State of Foreclosures:

California is among the states most severely impacted by the current foreclosure crisis facing our nation. In fact, as of April, California had the most properties facing foreclosure at 169,831 representing a 213% increase from a year earlier. California posted the second highest foreclosure rate in the country. San Diego County ranked ninth in the country with a total number of filings of 15,315, a rate of one for every 74 households.

The trend in Southern California has continued in May with notices of default and trustees sales increasing by 13% over this same time period last year. San Diego County is the third hardest hit county behind Riverside and San Bernardino. Within San Diego County, the most impacted cities are San Diego (2,168 filings) Chula Vista (886), Oceanside (518), Escondido (500) and El Cajon (312). Another wave of foreclosures is expected to hit within the next quarter. In sum, the foreclosure problem is expected to get worse before it gets better.

Initial data suggests that while the incidences of foreclosures are occurring countywide, San Diego's low and moderate income communities have a disproportionate concentration of foreclosures which can be attributed, in part, to high sub-prime loan activity over the past 5 years. The high incidences of foreclosures in our low and moderate income communities has contributed to neighborhood instability and deterioration, decreasing property values, a significant loss of community equity, and a deteriorating tax base for city services and schools.

The Neighborhood Land Bank's ("Land Bank") initial goal is to stabilize neighborhoods and property values within those low and moderate income communities which have been significantly impacted by the number of foreclosures. Additionally, the Land Bank will facilitate the production of sustainable homeownership and the revitalization of the aging housing stock within these communities. The Land Bank will also explore strategies to help improve and enhance the long term health and viability of the housing market.

The initial Land Bank activities will include:

1. Identification of target neighborhoods under stress from the mortgage foreclosure crisis.
2. Development of a strategic action plan and management plan.
3. Acquisition and disposition of REO properties.

Authorized Activities:

Property acquisition, rehabilitation, management and disposition of REO's countywide. In addition, where appropriate, ownership, and management of REO properties as rental housing.

Targeting and Planning Activities:

While the Land Bank's activities will be countywide, the Land Bank, in concert with local jurisdictions, will identify neighborhoods with significant concentrations of distressed properties as a priority focus for the initial Land Bank activities.

Asset/Property Management and Maintenance:

The Land Bank activities will include asset and property management necessary to provide for the rehabilitation, management, and maintenance of its portfolio of properties pending transfer and disposition.

Real Estate Activities:

The Land Bank will facilitate the acquisition, rehabilitation and ultimate disposition of real estate owned properties.

Foreclosure Prevention:

This is a critical component to a holistic strategy to address the foreclosure crisis. There are ongoing efforts by government entities, non-profits, and service providers to develop and implement foreclosure prevention and assist threatened and foreclosed borrowers. The Land Bank will develop strategic partnerships with these providers and link to their services as necessary.

Acquisition Strategy:

Real Estate Owned Properties:

Acquire REO foreclosed properties on a bulk basis at a discounted price.

Geographical Areas:

Priority will be given to those jurisdictions most impacted by foreclosures (San Diego, Chula Vista, Oceanside, Escondido, El Cajon, and targeted unincorporated areas).

Product Type:

Single family detached properties are priority. Attached multi-family will be pursued as necessary to facilitate a bulk purchase or otherwise address neighborhood stability issues and provide the opportunity to meet affordable homeownership goals.

The goal of the acquisition strategy is to acquire properties that can be acquired, rehabilitated and sold at market pricing affordable to low and moderate income earners. Properties which are significantly distressed and economically/functionally obsolescent will be acquired on a case by case basis or where necessary to facilitate the bulk purchase.

Rehabilitation Standards:

The current foreclosure crisis provides a unique opportunity to invest in upgrading and improving the aging housing stock in our urban communities. The goal of our rehabilitation standards will be to revitalize the housing stock to quality levels justifying the financial investment of our targeted homeowners. Additionally, due to the current turmoil in credit markets, FHA-guaranteed loans have become the primary source of low down-payment and low cost financing attainable by moderate income households. The FHA has high standards for property condition that many recently foreclosed properties are unable to meet. By rehabilitating these projects to FHA standards the Land Bank will be a catalyst to community investment.

The scope of the rehabilitation analysis will address the following:

1. Compliance with all applicable laws, codes and other requirements relating to housing safety, quality, and habitability.
2. The economic and functional life of the property's structural systems.
3. Compliance with financing/underwriting standards for FHA insured loans, and other prominent financing programs.
4. Upgrading, where physically and economically feasible, to modern day standards.
5. Incorporation of "green" rehabilitation features with particular attention to water and energy conservation and environmental health.

Asset Management:

Although the goal of the Land Bank is to acquire and dispose of the properties in a relatively timely manner, it is anticipated that under the best of circumstances, there will be a holding period from property acquisition to ultimate disposition. Additionally, depending on market conditions, financing availability, and the capacity of the disposition infrastructure, an interim holding strategy, based on a rental model, will be implemented. A well managed rental program, or lease to own program will stabilize neighborhoods by filling vacant houses with residents motivated to make an investment in their communities. Asset management services will be outsourced and monitored by Land Bank staff.

Property Disposition Strategy:

Properties will be resold to:

1. Homeownership: individuals and/or families having incomes ranging between 100% average median income and 140% average area median income (workforce housing).
 - a. Affordability levels at 80% to 100% ami will also be considered if reasonably prudent underwriting criteria determines that the homeownership can be sustainable on a long term basis.
2. Rental Housing: individuals and/or families having incomes not exceeding 100% area median incomes.
3. Homeownership/Rental: Non-profit entities for the purpose of providing homeownership or rental housing targeting the above referenced affordability targets.
4. Homeownership: community land trusts for permanent affordable housing.
5. Non-LMI Properties: Individuals and/or families at market rate.

See attached matrix which sets forth proposed parameters for the acquisition and disposition strategies.

Resale Restrictions:

In addition to creating affordable homeownership opportunities for low and moderate income families, the goal of the disposition strategy is to stabilize neighborhoods and encourage a long term investment in the neighborhoods. Re-sale restrictions will be imposed where required by financing sources.

Community Partner Network:

Critical to the success of the Land Bank model will be the development of a pool of credit worthy buyers and financing for first time homebuyers. Strategic linkages will be established with a network of local brokers, non-profit homebuyer agencies, government agencies and other service providers.

Capitalization Strategy:

The capitalization strategy is based upon a socially responsible investment philosophy which will leverage private and public capital to maximize economic and social returns. The economic returns will be targeted at a rate which will incentivize and attract private capital while simultaneously achieving the social goals of stabilizing our neighborhoods and producing affordable/workforce housing. Social returns will be measured in terms of benefits to the targeted low and moderate income communities (i.e. neighborhood stabilization, blight removal and prevention, property preservation) affordability levels, and the property rehabilitation levels achieved.

Private Capital:

The initial source is anticipated to be \$20 million from the San Diego Smart Growth Fund. This fund is a socially responsible real estate equity investment fund sponsored by the San Diego Capital Collaborative for investment of private capital in real estate projects in San Diego County's low and moderate income communities. Additional discussions have taken place with other capital providers and a financial model is being prepared to demonstrate the range of returns to be produced. This private capital will be used for the acquisition and rehabilitation of REO properties consistent with the Land Bank's acquisition strategy.

In addition to private equity capital, the Land Bank will explore financing options utilizing innovative debt capital structures which can leverage private and public capital. Strategic alliances with local CDFI institutions will be pursued. The creation of a pool of lending capital utilizing EQ² Funds and New Market Tax Credit will also be explored.

Public Capital:

The recently enacted Neighborhood Stabilization Act will provide federal funds to local jurisdictions for the purpose of purchasing and redeveloping foreclosed homes and residential properties. These funds can be used to establish the Land Bank and fund the acquisition and rehabilitation of properties including improvements to increase energy efficiency and/or conservation. In addition, the funds can be used for homebuyer financing and foreclosure counseling. These activities compliment the Land Bank's acquisition strategy and support the region's comprehensive approach to the foreclosure problem.

These funds can be strategically used in combination with the private capital and/or to supplement the private capital investments. The Land Bank will work with local jurisdictions to strategically target and allocate the use of these funds so as to maximize the impact of these resources.

In addition to the new federal funds, the Land Bank will work with local housing authorities and redevelopment agencies to assess existing resources which can supplement the Land Banks efforts in the form of additional investments in rehabilitation and/or homebuyer funding. Additionally, bond financing will also be explored.

Philanthropic Funds:

Efforts are ongoing to develop strategic alliances with existing and emerging grant making foundations. On the national level, these include, the Enterprise Foundation, Irvine Foundation, Ford Foundation, FNMA Foundation, as well as, the anticipated national foreclosure partnership. San Diego's local philanthropic community has a vested interest in addressing the foreclosure crisis. A few local foundations, Price Charities, and the Jacobs Foundation, have made significant investments in the revitalization of targeted low and moderate income communities. These investments are now at risk due to the market impacts attributable to the foreclosure crisis.

The San Diego Foundation through its Community Impact Program has supported community based efforts to address affordable housing and environmental health issues. There efforts include strategic research and analysis and community engagement.

The Local Initiatives Support Corporation has made significant investments locally in community revitalization efforts including affordable housing and commercial revitalization. On the national level, LISC has been active in supporting the passage of the Neighborhood Stabilization Act, as well as, the creation of the National Community Stabilization Trust which will act as a national clearing house for REO properties.

The Land Bank will seek to form strategic alliances with these local foundations and others to secure resources to support the following activities 1) Strategic planning and analysis, 2) Targeted acquisition and rehabilitation, 3) Homebuyer financing, and 4) seed capital for Land Bank activities.

Operations Capital:

Core operation activities will consist of strategic planning, real estate acquisitions, asset/property management, and property disposition. Additionally, the operations will include the management of a data information system which will provide tracking and analysis foreclosure data, identification of REO properties and monitoring and evaluation the impacts of the Land Bank activities.

An outsourcing strategy will be implemented for fund management, asset management, property rehabilitation, and acquisition/disposition financing activities. The Land Bank

will also enter into strategic alliances with local brokers, non-profit entities and other qualified private entities for marketing and sales activities related to the disposition of the REO properties. The Land Banks core staff will oversee and monitor these activities.

The initial seed capital to support start up activities of the Land Bank are anticipated to be CDBG funds (i.e. Neighborhood Stabilization Act) and local support grants. Longer term financing for the Land Bank will consist of an income stream generated from capital raising activities and the acquisition, management, and disposition of the properties.

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